

ROSEBAY RESOURCES INC.

1995 ANNUAL REPORT

1995 CORPORATE HIGHLIGHTS

OPERATIONS

Average Daily Production (Note 1)

Oil and natural gas liquids (BBLS/D)	70
Natural gas (MCF/D)	690
Total (BOEPD)	139

Reserves (January 1, 1996)

Proven oil and natural gas liquids (BBLS)	97,242
Probable oil (BBLS)	21,174
Total oil and natural gas liquids (BBLS)	118,416

Proven gas (MMCF)	3,919
Probable gas (MMCF)	596
Total gas (MMCF)	4,515

Total reserves (MBOE)	569
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Undeveloped land position - gross acres	15,067
- net acres	3,408

FINANCIAL (\$000)

Revenue (Note 2)	358
Net income	26
Cash flow	104
Total assets	810
Bank debt	320
Shareholders' equity	423

Shares (weighted average in thousands)	3,475
Net income per share	\$0.01
Cash flow per share	\$0.03

Note 1. Average daily production covering the five-month period beginning August 1, 1995, the effective date of the Company's major asset acquisition.

Note 2. While the Company's statements of income and retained earnings and cash flow report activities for the nine-month period ended December 31, 1995, production revenue and royalty income were earned only during the five-month period then ended.

TO THE SHAREHOLDERS

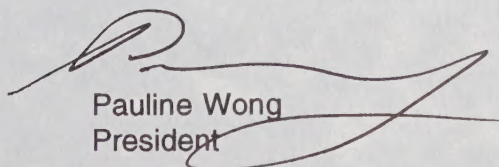
In 1995, Rosebay made important strides in its evolution to a self-sustaining energy company. At the time it commenced operations last April, Rosebay established two strategic goals: 1) to complete a major acquisition that would provide a solid asset base and a strong income stream, and 2) to concentrate operations in a few core areas through property consolidations and divestitures. We are pleased to report that Rosebay has accomplished both these goals.

In December, 1995, Rosebay acquired interests in 48 oil and natural gas properties situated throughout Alberta, Saskatchewan and British Columbia at a net cost of \$948,000. Included in this acquisition were interests in gas processing plants and production facilities, as well as a land position covering more than 90,000 acres (11,228 net acres), some of which contain significant shut-in gas reserves. These properties produced to Rosebay an average 139 BOEPD (70 BBLS per day of oil and 690 MCF per day of gas). In completing this acquisition, the Company fulfilled The Alberta Stock Exchange requirements regarding its Major Transaction and ceased to be a Junior Capital Pool corporation.

Immediately after concluding the property acquisition, Rosebay proceeded to streamline operations and reduce bank borrowings by disposing of assets that it considered non-core. In December alone, Rosebay entered into five separate transactions that involved the sale of 10 properties including interests in 33 shut-in or low-productivity wells. Rosebay also agreed to an asset exchange with a large independent oil and gas producer which held many properties in common with Rosebay. This strategy enabled the Company to shed a number of non-producing properties in which it owned a marginal interest while enlarging its share in other assets with sizeable gas reserves and development potential.

As a profitable and cost-efficient company, Rosebay is now poised to continue its asset growth in 1996. While the Company proposes to augment its production base primarily through property acquisitions, it will also review opportunities to acquire other companies with productive assets and significant tax attributes. Another aspiration of Rosebay in 1996 is to engage in low risk drilling projects. The Company is evaluating several joint venture horizontal drilling prospects and has committed to a well recompletion to commence in the second quarter. Rosebay also entered into a farm-out agreement on exploration lands in Bashaw, Alberta in the first quarter.

Rosebay appreciates the sound guidance and insight provided by its outside directors, without whom the successes achieved in the first year would not have been possible. The Company also offers its gratitude to the shareholders for their continued interest and support.



Pauline Wong
President

March 22, 1996

REPORT ON OPERATIONS

RESERVES

The table below summarizes the reserves and present value of future cash flows reported in Rosebay's reserve evaluation prepared by McDaniel & Associates Consultants Ltd. as at January 1, 1996. The estimates of probable reserves are reduced by 50% to reflect the uncertainty associated with the recovery of such reserves. The conversion to BOE for gas to oil is 10 MCF of gas to 1 BBL of oil.

Company Interest Reserves Before Royalty			Present Worth Value of Future Cash Flow Before Tax (000's)			
	Oil & NGLS (MBLS)	Gas (MMCF)	0% \$	10% \$	15% \$	20% \$
Proven Reserves						
Producing	97	1,255	2,603	1,840	1,600	1,414
Non-producing	-	2,664	4,332	1,742	1,185	838
Total Proven Reserves	97	3,919	6,935	3,583	2,785	2,252
Probable Reserves	11	298	591	284	210	160
Total Proven and Probable Reserves						
	108	4,217	7,526	3,867	2,995	2,412

At December 31, 1995, Rosebay held interests in 50,403 acres of land (7,829 net acres). The Company's undeveloped land position was comprised of 15,067 gross acres and 3,408 net acres.

PRODUCTION

The Company's production averaged 139 BOEPD for the period from August 1, 1995, the effective date of the asset acquisition, to December 31, 1995. The production mix, excluding royalty barrels, was evenly distributed between gas and oil.

The following table lists Rosebay's major properties, together with their average daily rates of production. All of the properties are non-operated. At December 31, 1995, the Company held working interests in 41 producing wells (3.9 net wells).

	Average Daily Production (BOEPD)
Bow Island	18
Enchant	10
Evi	16
Little Bow	23
Mikwan	10
Mulligan Creek	9
Plover Lake	25
Zaller/Salt Lake	18
Other (Minor)	10

Bow Island, Alberta. Rosebay holds a 3.856% working interest in the Bow Island Upper Mannville "A" Unit No. 1, located near Medicine Hat. Production is derived from 12 oil wells.

Enchant, Alberta. The Company holds working interests ranging from 12.18% to 20.89% in the 2 producing and 1 shut-in gas wells in Enchant, located about 5 miles southwest of Brooks. A recompletion in Enchant is scheduled to commence in the second quarter of 1996.

Evi, Alberta. Situated near Peace River, the property contains 4 producing and 4 shut-in or suspended oil wells. Rosebay has working and royalty interests varying between 1.25% and 25%.

Little Bow, Alberta. Production at Little Bow is derived from 1 gas well, 1 oil well and 5 wells producing both oil and gas. The Company's working interests in the 7 producing wells and 3 shut-in wells range from 0.67% to 17.62%. In December, 1995, Rosebay disposed of its interests in nine non-producing wells in Little Bow.

Mikwan, Alberta. Located near Red Deer, Mikwan is producing from 3 gas wells and 2 oil wells. Working interests to Rosebay range between 8.89% and 17.78%.

Mulligan Creek, Alberta. Rosebay holds working interests varying from 2.13% to 3.78% in 5 producing gas wells and a royalty interest in 1 producing gas well.

Plover Lake, Saskatchewan. Located southeast of Lloydminster, the Plover Lake property produces gas from one well. The Company participated in a workover in December, 1995 in which a siphon string was installed to remove excess water from the well. Rosebay's working interest is 40% before payout and 35% after payout.

Zaller/Salt Lake, Saskatchewan. This property, situated southeast of Lloydminster, consists of 2 producing gas wells (1 working interest and 1 royalty interest well), 1 producing oil well and 3 shut-in or suspended wells. Rosebay's working interests are 15.5% to 40%. A farmout agreement was negotiated in the last quarter of 1995, in which Rosebay retained a 15.5% working interest on a well recompletion. This well produced gas for three months before it was shut-in in early 1996 and remedial work for this well is anticipated.

MANAGEMENT'S DISCUSSION AND ANALYSIS

During the nine-month period ended December 31, 1995, Rosebay reported gross production revenue of \$350,255 and royalty income of \$7,736. Revenue was earned only during the five-month period beginning August 1, 1995, the effective date of Rosebay's property acquisition. The average price per BOE was \$16.47, which reflected weak commodity prices during the last half of the year. Net income and cash flow were \$25,850 and \$104,180 respectively. Earnings per share was \$0.01 based on a weighted average number of shares outstanding of 3,475,472. Cash flow per share was \$0.03.

Operating costs amounted to \$153,756, representing 43.9% of revenue and \$7.23 per BOE. In the last quarter, the Company was required to cover surface rental payments on many of its properties for the 1996 year, while recognizing revenue for only 5 months. Earnings were further eroded by heavy operating costs incurred during August and September at the Little Bow Travers gas processing facility, where a major plant maintenance review and an environmental analysis program were undertaken. As the Travers facility was incurring losses even in the absence of these non-recurring expenditures due to plant under-utilization, the Company sold its interest in the facility in December. Another factor that caused a negative impact on Rosebay's returns were the losses generated by the minor properties, most of which contained shut-in or low productivity wells. Rosebay addressed this problem by disposing of many of these properties in December and the first quarter of 1996.

The acquisition by Rosebay of the 48 properties was financed by cash on hand and bank borrowings of up to \$580,000. Closing adjustments reduced the debt component to \$520,000. After a series of minor asset dispositions in which the Company generated proceeds of more than \$200,000, bank debt was curtailed to \$320,000 at year-end. Debt balances and financing costs will continue to diminish in the first quarter of 1996 as further property divestitures are completed.

The outcome of Rosebay's aggressive divestiture program will be a more rationalized and cost-efficient operation, and consequently, higher netbacks. Production will decrease only nominally as a result of these asset sales. The Company's returns will also be improved in the coming year by stronger commodity prices. Another benefit to be recognized from the dispositions are lower future site restoration costs and abandonment liabilities.

The Company intends to enlarge its reserve and production base in 1996 through asset acquisitions and low risk drilling. In evaluating its investment prospects, Rosebay's goal will be to acquire reserves with steady income streams, as well as properties with development potential. Financing for Rosebay's drilling program will be supported by a combination of bank debt and equity funding. Income tax planning will also be an important component in the Company's growth strategy, and Rosebay proposes to generate tax attributes through development drilling and corporate acquisitions.

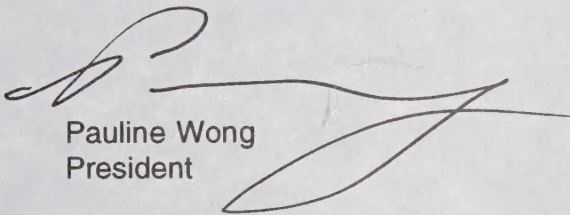
MANAGEMENT'S REPORT

The financial statements of Rosebay Resources Inc. were prepared by management in accordance with generally accepted accounting principles. The financial and operating information presented in this annual report is consistent with the financial statements.

Management maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of financial statements for reporting purposes. Timely release of the financial statements sometimes necessitates the use of estimates when transactions affecting the current accounting period cannot be finalized until future periods. Such estimates are based on careful judgements made by management.

Barr Shelley Stuart, an independent firm of Chartered Accountants, has been engaged, as approved by a vote of the shareholders at the Company's special and annual general meeting held on December 4, 1995, to examine the financial statements in accordance with generally accepted auditing standards and provide an independent professional opinion.

The Audit Committee of the Board of Directors has reviewed the financial statements, including the notes thereto, and has met with management to determine that management has fulfilled its responsibilities in the preparation of the financial statements. The Board has approved the financial statements which are contained in the annual report.



Pauline Wong
President

March 22, 1996

AUDITORS' REPORT

TO THE SHAREHOLDERS OF ROSEBAY RESOURCES INC.:

We have audited the balance sheet of Rosebay Resources Inc. as at December 31, 1995 and the statements of income and retained earnings and cash flow for the nine month period then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1995 and the results of its operations and the changes in its financial position for the nine month period then ended in accordance with generally accepted accounting principles.

Barr Shelley Stuart

CHARTERED ACCOUNTANTS

Calgary, Alberta
February 16, 1996

BALANCE SHEET AS AT DECEMBER 31, 1995

ROSEBAY RESOURCES INC.

STATEMENT OF INCOME AND RETAINED EARNINGS FOR THE NINE MONTH PERIOD ENDED DECEMBER 31, 1995

REVENUE

Oil and gas production		\$ 350,255
Royalties		<u>(49,950)</u>
		300,305
Royalty income		<u>7,736</u>
		308,041

EXPENSES

Operating	\$ 153,756	
General and administrative	12,371	
Site restoration	5,044	
Interest on long term debt	2,828	
Depletion and amortization	<u>73,161</u>	<u>247,160</u>

INCOME BEFORE THE FOLLOWING

60,881

Interest income	9,840	
Interest on interim financing	<u>(29,978)</u>	<u>(20,138)</u>

INCOME BEFORE INCOME TAXES

40,743

Income taxes	(Note 6)	<u>(14,893)</u>
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NET INCOME FOR THE PERIOD AND RETAINED EARNINGS AT END OF PERIOD

\$ 25,850

EARNINGS PER SHARE

(Note 2)

\$ 0.01

ROSEBAY RESOURCES INC.

**STATEMENT OF CASH FLOW
FOR THE NINE MONTH PERIOD ENDED DECEMBER 31, 1995**

CASH PROVIDED BY (USED IN)

OPERATING ACTIVITIES

Net income for the period		\$ 25,850
Add items not involving a current cash outlay		
Depletion and amortization	73,161	
Amortization of deferred financing costs	125	
Site restoration	<u>5,044</u>	
	104,180	
Changes in working capital balances related to operating activities		
Accounts receivable	(120,234)	
Prepays	(5,050)	
Accounts payable	46,993	
Income taxes	<u>14,893</u>	
	40,782	

FINANCING ACTIVITIES

Proceeds from long term debt	\$ 520,000	
Reduction in long term debt	(200,000)	
Deferred financing costs	(3,625)	
Issuance of capital stock	495,000	
Share issuance costs	<u>(97,905)</u>	713,470

INVESTING ACTIVITIES

Purchase of petroleum and natural gas properties	(959,500)	
Proceeds from sale of petroleum and natural gas properties	<u>207,440</u>	<u>(752,060)</u>

INCREASE IN CASH AND CASH AT END OF PERIOD \$ 2,192

CASH FLOW PER SHARE (Note 2) \$ 0.03

ROSEBAY RESOURCES INC.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 1995

NOTE 1 MAJOR TRANSACTION AND COMMENCEMENT OF OPERATIONS

The Company was incorporated on February 14, 1994 as a Junior Capital Pool Corporation (JCP) as defined in Alberta Securities Commission Policy 4.11 and commenced operations in April, 1995. As its Major Transaction, effective December 5, 1995, the Company acquired various petroleum and natural gas properties for cash of \$948,000.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

a) i) Petroleum and Natural Gas Properties

The Company follows the full cost method of accounting for petroleum and natural gas properties and equipment whereby all costs, net of government incentives, relating to the exploration for and development of oil and gas reserves, are capitalized. Such costs include lease acquisition costs, geological and geophysical expenditures, costs of drilling both productive and non-productive wells, related plant and production equipment costs and overhead charges.

Proceeds on disposal of properties are normally applied as a reduction of the capitalized costs without recognition of a gain or loss except where such a disposal would alter the depletion and amortization rate by 20% or more.

The Company carries its petroleum and natural gas properties at the lower of the capitalized cost and net recoverable value. Net capitalized cost is calculated as the net book value of the related asset less the accumulated provisions for deferred income taxes and site restoration costs. Net recoverable value is limited to the sum of future net revenues from proven properties and the cost of unproved properties, net of provision for impairment, less estimated future financing and administrative expenses and income taxes. Future net revenues are based on prices and costs prevailing at the year end.

ii) Depletion and Amortization

Accumulated costs of petroleum and natural gas properties and equipment, including provision for future development expenditures, are depleted using the unit-of-production method based on an estimate of proven petroleum and natural gas reserves, as prepared by independent petroleum engineers.

Accumulated costs are reviewed annually for impairment in value. Additional depletion is provided if the aggregate net book value of petroleum and natural gas properties exceeds estimated future production revenues.

ROSEBAY RESOURCES INC.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 1995

b) Future Site Restoration and Abandonment Costs

The estimated costs for future site restoration and abandonment are provided for on a unit-of-production basis. The estimates are based upon regulation and industry standards in effect at year end. The annual charge is recorded as a provision for site restoration and the actual site restoration costs are charged to the provision as incurred.

c) Joint Venture Operations

Substantially all of the Company's exploration and production activities are conducted jointly with other entities. Accordingly these financial statements reflect only the Company's proportionate interest in such activities.

d) Per Share Information

Earnings per share and cash flow per share are calculated based on the weighted average number of shares outstanding during the period which was 3,475,472. Fully diluted earnings per share, as affected by stock options, is not materially different.

NOTE 3 PETROLEUM AND NATURAL GAS PROPERTIES

	<u>Cost</u>	<u>Accumulated Depletion and Amortization</u>	<u>Net Book Value</u>
Petroleum and natural gas properties	\$ <u>752,060</u>	\$ <u>73,161</u>	\$ <u>678,899</u>

ROSEBAY RESOURCES INC.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 1995

NOTE 4 LONG TERM DEBT

At December 31, 1995, the Company had a revolving demand bank loan of \$560,000 of which \$320,000 was drawn. Borrowings under the bank loan bear interest at prime plus 1.25% per annum. Availability under the loan is reduced by \$20,000 per month and no principal repayments are currently due. Security for the indebtedness is provided by a \$2.5 million fixed and floating charge debenture and a general security agreement covering all of the assets of the Company.

\$ 320,000

Less current portion

-

\$ 320,000

Principal repayments required for each of the next three years are as follows:

1996	\$ -
1997	240,000
1998	<u>80,000</u>
	<u>\$ 320,000</u>

NOTE 5 CAPITAL STOCK

- a) Authorized capital
- Unlimited number of Class A voting shares
 - Unlimited number of Class B, C, D and E preferred shares issuable in series

ROSEBAY RESOURCES INC.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 1995

NOTE 5 CAPITAL STOCK (Continued)

b) Issued - Class A shares

	<u>Number</u>	<u>Consideration</u>
Balance, beginning of period	-	\$ -
Issued for cash		
Incorporating shares	1,800,000	135,000
Initial public offering	<u>2,400,000</u>	<u>360,000</u>
	4,200,000	495,000
Share issue costs	<u>-</u>	<u>(97,905)</u>
Balance, end of period	<u>4,200,000</u>	\$ <u>397,095</u>

c) Preferred Shares

An unlimited number of preferred shares may be issued in one or more series and the directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges and conditions attached to the shares of each series.

d) Reserved For Issue

The Company has a stock option plan under which the Board of Directors can grant options to purchase Class A shares to senior employees and directors.

The Company has granted stock options on 660,000 Class A shares as follows:

<u>To</u>	<u>Date</u>	<u>Price Per Share</u>	<u>Number of Shares</u>	<u>Expiration Date</u>
Company's agent	June 29/95	\$0.15	240,000	Dec. 29/96
Officers and directors	Mar. 30/95	\$0.15	420,000	Dec. 31/99

ROSEBAY RESOURCES INC.

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 1995

NOTE 5 CAPITAL STOCK (Continued)

e) Escrowed Shares

Under the requirements of the Alberta Securities Commission and the Alberta Stock Exchange, 1,800,000 common shares issued for the JCP and 41,000 common shares issued or obtained in connection with the initial public offering or secondary market purchases are held in escrow.

The escrowed shares may be released as to one third thereof, on the first anniversary of the completion of the Company's Major Transaction, which was December 5, 1995. At the time of consent for the first release, approval of the second and third releases may be obtained.

NOTE 6 INCOME TAXES

The provision for income taxes in the statement of income and retained earnings reflects an effective tax rate which differs from the expected statutory income tax rate. Differences are accounted for as follows:

Statutory income tax rate	<u>44.62%</u>
Expected provision for income taxes	\$ 18,180
Differences in provincial tax rates	195
Royalties paid to the Crown	16,598
Resource allowance	(19,535)
Share issuance costs	(8,831)
Future tax benefit not recognized	<u>8,286</u>
Provision for current taxes	\$ <u>14,893</u>

ROSEBAY RESOURCES INC.

NOTES TO THE FINANCIAL STATEMENTS **DECEMBER 31, 1995**

NOTE 6 INCOME TAXES (Continued)

The following deductions are available for future income tax purposes:

Canadian development expense	\$ 4,820
Canadian oil and gas property expense	509,637
Undepreciated capital cost	178,330
Share issuance costs	78,324
Deferred financing costs	<u>2,940</u>
	<u>\$ 774,051</u>

NOTE 7 RELATED PARTY TRANSACTIONS

Since its incorporation the Company has participated in various activities with an entity whose Chairman and Chief Executive Officer is also a shareholder and director of the Company. The activities with respect to petroleum and natural gas exploration and development were conducted under normal industry terms. The companies also share certain office accommodations and services which are provided at market rates. Amounts included in accounts receivable are \$14,897 and in accounts payable are \$23,409 to this related party.

NOTE 8 SEGMENTED INFORMATION

The Company's business activity is the exploration for and development and production of oil and gas reserves. All of this activity is conducted in Western Canada and comprises a single business segment.

CORPORATE INFORMATION

OFFICERS AND DIRECTORS

Pauline Wong
President and Director

John Komisar
Director

Richard A. Schuster
Director

BANKER

National Bank of Canada
Calgary, Alberta

AUDITORS

Barr Shelley Stuart
Calgary, Alberta

LEGAL COUNSEL

Parlee McLaws
Calgary, Alberta

EVALUATION ENGINEERS

McDaniel & Associates Consultants Ltd.
Calgary, Alberta

REGISTRAR AND TRANSFER AGENT

Montreal Trust Company of Canada
Calgary, Alberta

STOCK EXCHANGE LISTING

The Alberta Stock Exchange
Trading Symbol: RBY

HEAD OFFICE

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Facsimile: (403) 237-7145

ANNUAL MEETING

Shareholders are invited to attend the Company's Annual General Meeting which will be held at 10:00 a.m. on May 22, 1996 in the Boardroom at 1825, 510 - 5th Street S.W., Calgary, Alberta

ABBREVIATIONS

BBLS	Barrels
BBLS/D	Barrels per day of oil
BOE	Barrels of oil equivalent
BOEPD	Barrels per day of oil equivalent
MBBLS	Thousands of barrels
MBOE	Thousands of barrels of oil equivalent
MCF	Thousand cubic feet
MCF/D	Thousands of cubic feet per day of gas
MMCF	Million cubic feet
NGLS	Natural gas liquids

ROSEBAY RESOURCES INC.

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